



What's new for 2009?

- Effective for tax years **ending on or after December 31, 2008**, partnerships, S corporations, and trusts are required to make pass-through entity payments on behalf of all nonresident partners and beneficiaries. Pass-through entities should report payments made on your behalf on Illinois Schedules K-1-P or K-1-T. Any payments received from pass-through entities may be claimed as a credit on this form. Owners claiming any credit must attach the Schedule K-1-P or K-1-T they receive from the pass-through entity. For more information, see Information Bulletin, FY-2009-02, Pass-through Entity Payments.
- Effective for tax years **ending on or after December 31, 2008**, composite return filing is expanded to allow partnerships and S corporations to file a composite return to report and pay increases in tax for partners and shareholders that result from changes in income of the partnership or S corporation, **if all** partners and shareholders are included in the filing. If the partnership or S corporation filed a composite return initially, the tax increase should be reported on Form IL-1023-C-X. If the partnership or S corporation did not file a composite return, the tax increase should be reported on Form IL-1023-C. Refunds can only be claimed for taxes you paid for partners or shareholders on an original or amended return.
- This new provision does not change the existing provision of filing a composite return to report increased liabilities or claim refunds on an IL-1023-C-X for partners and shareholders included on the IL-1023-C.
- Effective for tax years **ending on or after December 31, 2009**, the partners' and shareholders' share of income tax credits from their Schedule K-1-P may be claimed on Form IL-1023-C.

General Information

Who may file Form IL-1023-C?

A partnership or S corporation may choose to act as authorized agent and file Form IL-1023-C for selected partners or shareholders.

A person transacting an insurance business organized under a Lloyds plan of operation may file a composite return on behalf of all its underwriters, including corporations and residents. You must refer to Illinois Income Tax Regulations, Section 100.5130, for specific instructions on how to properly complete Form IL-1023-C and determine what you need to attach to your return.

You, as authorized agent, are not required to notify the Illinois Department of Revenue (IDOR) that you will start or stop filing Form IL-1023-C. In addition, you are not required to give advance notice of changes from year to year of the members included on Form IL-1023-C. However, for any year a Form IL-1023-C is filed, you are responsible for

- filing any petitions required,
- paying estimated tax,
- paying tax, penalty or interest assessed,
- responding to notices,
- filing amended returns, and
- participating in any audit of the return.

Who may be included in a composite return?

Individuals, estates, or trusts that are members of the same partnership or S corporation may be included on Form IL-1023-C. The form is generally for nonresidents of Illinois who have no Illinois income other than the income reported on Form IL-1023-C. **All** eligible members of the partnership or S corporation do not have to be included. The decision of whether or not to include a member on Form IL-1023-C must be made by that member and you, the authorized agent. All members **not included** on Form IL-1023-C are required to meet their Illinois filing obligations independently.

All underwriters who are members of an insurance business organized under a Lloyds plan of operation may be included on Form IL-1023-C.

The department may grant approval to include a member who is an Illinois resident, or a member whose residency cannot be determined if you petition for their inclusion (see "Do I need to file a petition?").

Example: The Acme partnership consists of a general partner and 50 limited partners. The general partner is a regular corporation, and the limited partners consist of 26 nonresident individuals, 20 resident individuals, a S corporation, a partnership, a nonresident estate, and a nonresident trust. The 26 nonresident individuals, the nonresident estate, and the nonresident trust may be included on Form IL-1023-C. The 20 resident individuals **may** be included if you submit a petition and we grant approval. None of the other partners may be included.

Note A qualifying member may be included in more than one composite return.

Do I need to file a petition?

You must file a petition and receive approval if you wish to include

- a member who is a resident of Illinois, or
- a member whose residency cannot be determined.

Note No petition needs to be filed by a Lloyds plan of operation to include any of its underwriters. Also, no credit is allowed to any underwriter for its share of composite tax paid on Form IL-1023-C.

You must file the petition **prior to** the end of the partnership's or S corporation's tax year. We will notify you of the approval or denial of the petition prior to the original due date for filing Form IL-1023-C.

We will grant a petition if you clearly demonstrate that no other method of filing would achieve the same degree of compliance and administrative ease, or if you provide sufficient evidence that residency cannot be accurately determined. Mail petitions to:

**BUSINESS PROCESSING DIVISION
 ILLINOIS DEPARTMENT OF REVENUE
 PO BOX 19014
 SPRINGFIELD IL 62794-9014**

What forms must I use?

In general, you must use forms prescribed by the Illinois Department of Revenue. Separate statements not on forms provided or approved by the department will not be accepted and you will be asked for appropriate documentation. Failure to comply with this requirement may result in the delay of processing your return or generating any refund. Additionally, failure to submit appropriate documentation when requested may result in a referral to our Audit Bureau for compliance action.

Composite returns must be filed on Form IL-1023-C. Do not send a computer printout with line numbers and dollar amounts attached to a blank copy of the return. Computer generated printouts are not acceptable, even if they are in the same format as the department forms. Computer generated forms from a department-approved software developer are acceptable.

When should I file?

Form IL-1023-C is due on or before the 15th day of the **4th** month following the close of the authorized agent's tax year.

If you are operating as a business organized under the Lloyds plan of operation, your due date is the same as your federal return due date.

Automatic Illinois extension — We grant an automatic six-month extension of time to file Form IL-1023-C, whether or not the automatic extension was requested. You are not required to file Form IL-505-B, Automatic Extension Payment, in order to obtain this automatic six-month extension. However, if you expect tax to be due, you must use Form IL-505-B to pay any tentative tax due in order to avoid interest and penalty on tax not paid by the original due date of the return. An extension of time to file your Form IL-1023-C is not an extension of time for payment of Illinois tax.

Note → Do not use Form IL-505-I, Automatic Extension Payment (for individuals), to submit composite tax payments.

Where should I file?

Mail your Form IL-1023-C to

**ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19009
SPRINGFIELD IL 62794-9009**

If you are operating as a business organized under the Lloyds plan of operation, you should mail your Form IL-1023-C to

**ATTN: LLOYD'S OF LONDON
BUSINESS PROCESSING DIVISION
PO BOX 19014
SPRINGFIELD IL 62794-9014**

Note → Mail your Form IL-1023-C to us separately. Do not attach it to Form IL-1065 or Form IL-1120-ST.

When should I pay?

Payment of tax — You must pay your Illinois Income and Replacement Tax in full on or before the original due date of the return. This payment date applies even though an automatic extension for filing your return has been granted.

Estimated tax payments — You may make estimated payments on the basis of the income tax expected to be shown on the composite return. Estimated payments must be submitted with Form IL-1023-CES. Do not use Form IL-1040-ES or Form IL-1120-ES to pay composite tax.

Note → Payments submitted to the department for any other type of tax or overpayments of tax from any other type of tax return **cannot** be transferred to Form IL-1023-CES or Form IL-1023-C to satisfy your composite tax payment requirements.

Who should sign the return?

If you are filing Form IL-1023-C to report distributed

- partnership income, a general partner must sign the return.
- S corporation income, a corporate officer must sign the return.

If you are operating as a business organized under the Lloyds plan of operation, an officer of that plan must sign Form IL-1023-C.

Preparer information — Any person paid to prepare your return must provide a signature, date the return, and write the preparer's taxpayer identification number. If the preparer is an employee or partner of a firm or corporation, the preparer must also provide the firm's name, address, and instead of the preparer's taxpayer identification number, the preparer must provide the firm's FEIN. Self-employed preparers must provide their own name, address, and taxpayer identification number in the appropriate spaces.

Note → If your return is not signed, any overpayment of tax is considered forfeited if, after notice and demand for signature, you fail to provide a signature within three years from the date your return was filed.

What are the penalties and interest?

Penalties — You will owe

- a **late-filing penalty** if you do not file a processable return by the extended due date;
- a **late-payment penalty** if you do not pay the tax you owe by the original due date of the return;
- a **bad check penalty** if your remittance is not honored by your financial institution;
- a **cost of collection fee** if you do not pay the amount you owe within 30 days of the date printed on your bill.

Interest — interest is calculated on tax from the day after the original due date of your return through the date you pay the tax.

We will bill you for penalties and interest. For more information about penalties and interest, see Publication 103, Penalties and Interest for Illinois Taxes. To receive a copy of this publication, see "What if I need additional assistance or forms?" for our phone numbers and addresses.

Who needs to file an independent return?

Nonresident members that do not have Illinois income, other than the income included on Form IL-1023-C, are generally **not required** to file an independent Form IL-1040 or Form IL-1041 return. However, if a nonresident member made tax payments on Forms IL-1040-ES, Estimated Income Tax Payments for Individuals, the payments can **only** be claimed by filing the appropriate independent return. These payments cannot be transferred to Form IL-1023-C.

To recover these payments, a Form IL-1040 or Form IL-1041 must be filed with an attached Schedule NR. In these cases, the Schedule NR should report zero Illinois income and must identify the Form IL-1023-C that includes the member's Illinois income by providing the name and FEIN of the authorized agent who filed the return.

Nonresident members that have Illinois income, in addition to the income included in a Form IL-1023-C, and all resident members are **required** to file an independent Form IL-1040 or Form IL-1041. The member's share of income reported on Form IL-1023-C (except in the case of a Form IL-1023-C filed by a Lloyds plan of operation) must also be included on the independent return. These members are allowed to claim a credit on their independent Form IL-1040 or Form IL-1041 for their share of the composite tax paid on Form IL-1023-C. Specific

instructions for filing independent Form IL-1040 or Form IL-1041 are provided with the approval of the petition (see "Do I need to file a petition?").

What if I need to correct or change my return?

Corrected — If you need to correct or change your return after it has been filed, but before the extended due date has passed, you must file a corrected Form IL-1023-C-X, Amended Composite Income and Replacement Tax Return. Write "CORRECTED" at the top and show the changes. A corrected return is treated as your original return for all purposes.

Amended — If you need to change your return after it has been filed, and the extended due date has passed, you must file Form IL-1023-C-X, showing the changes. If the associated Form IL-1065, Partnership Replacement Tax Return, or Form IL-1120-ST, Small Business Corporation Replacement Tax Return, original figures are amended, you must file those amended returns separately.

Note Form IL-1023-C **cannot** be amended to transfer tax payments or overpayments from (or to) any other type of return, or to claim a net operating loss carryforward or carryback.

What attachments do I need?

You must complete Schedule BC, Composite Return Membership, and report the following information for **each member** included in the composite return:

- name, address, and Social Security number or FEIN, and
- the percentage of ownership held in the partnership or S corporation.

What if I need additional assistance or forms?

If you need additional assistance -

- Visit our web site at tax.illinois.gov.
- Write to us at
ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19044
SPRINGFIELD IL 62794-9044
- Call **1 800 732-8866** or **217 782-3336** (TDD, telecommunications device for the deaf, at **1 800 544-5304**). Our office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.

See Specific Instructions for Schedule BC for more information.

If you are operating as a business organized under the Lloyds plan of operation, refer to Illinois Income Tax Regulations, Section 100.5130, to determine what you need to attach to your Form IL-1023-C.

Note When filing your Form IL-1023-C, include **only** forms and schedules required to support your return. Send correspondence separately to

ILLINOIS DEPARTMENT OF REVENUE
TAXPAYER CORRESPONDENCE
PO BOX 19044
SPRINGFIELD IL 62794-9044

What if I participated in a reportable transaction?

If you participated in a reportable transaction, including what is commonly known as a "listed transaction," during this tax year and were required to disclose that transaction to the IRS, you are also required to disclose that information to Illinois.

Your disclosure with Form IL-1023-C will fulfill any obligation of the members included on the return to file a disclosure of the same transactions with Illinois.

You must send us two copies of the form you used to disclose the transaction to the IRS.

- Attach one copy to your tax return, and
- Mail the 2nd copy to

ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19029
SPRINGFIELD IL 62794-9029

If you need additional forms or schedules -

- Visit our web site at tax.illinois.gov.
- Call our 24-hour Forms Order Line at **1 800 356-6302**.
- Write to us at
ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19010
SPRINGFIELD, IL 62794-9010

Specific Instructions

Specific instructions for most of the lines are provided on the following pages. Lines that are not discussed in the instructions are self-explanatory.

Step 1 — Provide the following information

A — Type or print the required name and address information clearly in the spaces provided. If your name or address has changed since you filed your last return, check the box.

B — If this is your first or final return, check the appropriate box.

C — Write your federal employer identification number.

D — Check the appropriate box to indicate whether you filed Form IL-1065 or Form IL-1120-ST.

Trust, Individual, and estate members may be included on the same composite return.

E — If this composite return includes **trust members**, you **must** check this box.

F — If this composite return includes **only individuals and/or estates**, you **must** check this box.

If you are operating a business organized under a Lloyds plan of operation, you **must** refer to Illinois Income Tax Regulations, Section 100.5130, for specific instructions on how to properly complete Form IL-1023-C.

Step 2 — Figure your income and net income tax

Note Composite income cannot be reduced by the standard exemption, nor by any type of net operating loss deduction. Additionally, there are no provisions for any tax credits on Form IL-1023-C.

Line 1a — Write the amount of modified base income of the partnership or S corporation. Figure this modified income by using information from your Form IL-1065 or Form IL-1120-ST, and eliminating certain additions and subtractions from Steps 4 and 5.

Line 2a — Write the amount of modified base income allocable to Illinois. Figure this amount by using information from your Form IL-1065 or Form IL-1120-ST, Step 6.

Partnerships — Use a blank Form IL-1065 as a worksheet and complete Steps 4 through 6. Write the amount from Line 14, of

the partnership's return. Write zeros on Lines 21, 26, and 27. On Line 20, write the amount of any guaranteed payments made to a partner included in this composite return.

Note → On Line 34, include any amount of the federal domestic production activity or oil and gas depletion deductions that you are not allowed to claim on your Form IL-1065, but may pass through to eligible partners.

S corporations — Use a blank Form IL-1120-ST as a worksheet and complete Steps 4 through 6. Write the amount from, Line 14, of the corporation's return. Write zeros on Lines 20, 24, 27, 29, and 30. On Line 34, do not include any subtractions allowed to you for foreign dividend gross-up, Subpart F income, or foreign dividends received.

Note → On Line 34, include any amount of the federal domestic production activity or oil and gas depletion deductions that you are not allowed to claim on your Form IL-1120-ST, but may pass through to eligible shareholders.

Partnerships and S corporations — Copy the amounts for all other lines (except total lines) from your return. Recalculate the Form IL-1065 or Form IL-1120-ST worksheet and write the recalculated amount from

- Step 5, Line 36, on Step 2, Line 1a, of Form IL-1023-C and
- Step 6, Line 47, on Step 2, Line 2a, of Form IL-1023-C.

Line 1b — Write the total percentage of ownership for resident members in this composite return.

Note → Do not include any Illinois residents in this composite return unless you have received written permission from us (see "Do I need to file a petition?").

Line 2b — Write the total percentage of ownership for nonresident members in this composite return.

Lines 2c through 4 — Follow the instructions on the form.

Note → If a partnership agreement provides for a specific allocation of certain items that differs from that used to allocate income or loss, such as guaranteed payments, compute the amount on Line 3 in accordance with this allocation. You **must** write the special items and percentage allocations on a separate sheet and attach it to your return. If specific allocations cause some partners to have income and others to have losses, the loss of one partner may not be used to offset the income of another.

Line 5 — Write the total amount of income tax credits passed through to the members included on this return, as shown on their Schedules K-1-P. Attach Schedule 1299-A.

Line 6 — Subtract Line 5 from Line 4.

Step 3 — Figure your net replacement tax

Members that are **trusts** are also subject to Illinois replacement tax. If your return includes any trust members, you must complete

Step 3. If your return includes only individual and/or estate members, do not complete Step 3.

Lines 7 and 8 — Follow the instructions on the form.

Line 9 — Write the total amount of replacement tax investment credit passed through to the members included on this return, as shown on their Schedules K-1-P. Attach Form IL-477.

Line 10 — Subtract Line 9 from Line 8.

Step 4 — Figure your refund or balance due

Line 12a — Write the amount of any overpayment from your previous year's tax return that you requested to be applied to this year's tax return.

Line 12b — Write the total amount of estimated payments you made with Form IL-1023-CES during this tax year.

Line 12c — Write the amount of Illinois income and replacement tax paid with Form IL-505-B.

Line 12d — Write the amount of Illinois pass-through entity payments made on your behalf by the partnerships, S corporations, or trusts included in the composite return, as reported to you on Schedule K-1-P or K-1-T. If you have more than one Schedule K-1-P or K-1-T, add the amounts of all the schedules and write the total on Line 12d. **Attach copies of the Schedules K-1-P and K-1-T you received from the pass-through entities to your Form IL-1023-C.**

Note → Do not include payments made with any other type of form. Do not include any overpayment from an independent Form IL-1040 or Form IL-1041, or from your Form IL-1065 or Form IL-1120-ST. These payments **cannot** be transferred to Form IL-1023-C.

Lines 13 through 16 — Follow the instructions on the form. Your refund will not be issued if you do not file a processable return.

Note → If you overpay your estimated tax payments for any reason (including paying tax on behalf of an owner who decides not to join in the composite return), you may not transfer the overpayment to any other liability. You must file Form IL-1023-C and request a refund of the overpayment or a credit to your estimated tax obligation for the following year.

Line 17 — Follow the instructions on the form. This is your amount of tax due that must be paid in full if \$1 or more. Make your check or money order payable to "**Illinois Department of Revenue**".

We will compute any penalty or interest due and notify you (see General Information, "What are the penalties and interest?").

You should also **write the amount you are paying in the box located at the top of Page 1** of the Form IL-1023-C.

Illinois Schedule BC Instructions

Complete Illinois Schedule BC identifying any person who is included in the composite return. You **must** attach Schedule BC to your Form IL-1023-C.

Column A — Write the name and address of each partner or shareholder.

Column B — Write the Social Security number or federal employer identification number (FEIN) of each partner or shareholder.

Column C — Indicate the type of each partner's or shareholder's organization. Write

- "I" for individual
- "T" for trust
- "M" for estate

Column D — Write the percentage representing each partner's or shareholder's share of income, loss, deductions, credit, or recapture.

Column E — Check the box if

- the partner or shareholder is an Illinois resident, and
- you have received department approval of your petition.

